



**MCI Communications  
Corporation**

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Michael Hydock  
Sr. Staff Member  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

December 16, 1993

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, D.C. 20554

RM - 8388

Re: In the Matter of: Inquiry into Policies and Programs to Assure Universal  
Telephone Service in a Competitive Market Environment

Dear Mr. Caton,

Enclosed herewith for filing are the original and nine (9) copies of MCI Telecommunications Corporation's Comments regarding MFS Communication Company's Petition in the above captioned matter. Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Petition furnished for such purpose and remit same to the bearer.

Yours truly,

*Michael F. Hydock*

Michael F. Hydock  
Senior Staff Member  
Federal Regulatory Analysis

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of:

Inquiry into Policies and Programs  
to Assure Universal Telephone Service  
in a Competitive Market Environment

Rm - 8388

**MCI COMMENTS**

By Public Notice dated November 16, 1993, the Commission requests comments on MFS Communications Company, Inc.'s (MFS) Petition for a Notice of Inquiry and *En Banc* Hearing (Petition) in the above captioned matter filed on November 1, 1993. MCI Telecommunications Corporation (MCI) is pleased to provide to the Commission its comments in this matter.

**MCI STRONGLY SUPPORTS THE MFS REQUEST FOR AN INQUIRY**

The MFS Petition requests a comprehensive examination of the public policy goal of universal service. At a time when the telecommunications industry is in the midst of deploying new technologies for providing new and existing services and different firms are emerging which may offer an alternative to conventional local exchange carrier (LEC) based services, it is readily apparent that the current goal of universal telephone

service be re-examined in the context of these changes.<sup>1</sup> Since the LECs control over 99 percent of all the access dollars paid by interexchange carriers (IXCs) -- and the timing of an investigation might appear premature -- it is still an appropriate time for the Commission to hold an *En Banc* hearing or institute a Notice of Inquiry on Universal Service requirements as proposed by MFS. MCI would not object to a hearing, but given the complexity of the issues, and the needed quantification of the costs and underlying burden of universal service subsidies, an inquiry would be more appropriate than a hearing. Such an approach can investigate the issues raised by MFS's Petition and provide other information which could be used (and helpful) in a future rulemaking. MCI fully supports such an approach, and looks forward to contributing to the public policy discussion in that inquiry.

MFS identifies certain key goals to be pursued within the context of the inquiry. Recognizing the existing changes in the local exchange and access marketplace -- niche competition, "contribution" issues relating to local transport and expanded interconnection -- combined with the possible evolution of wireless and cable television technologies to provide some type of alternatives to certain portions of the LEC networks, MFS urges a fundamental re-evaluation of the current universal service policy. MFS does not singularly look at the existing Universal Service Fund as the sole prospect for reform, but correctly points out other subsidies, such as Lifeline Assistance, the

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<sup>1</sup>The Commission staff has already recognized the needs to readdress the issue of assistance-type mechanisms within the context of the transition to more competitive markets. See, Federal Perspectives on Access Charge Reform, Access Reform Task Force, Common Carrier Bureau Staff, FCC, April 30, 1993, pp. 52-57.

triple-weighting accorded dial equipment minutes for small-LEC separations, and the NECA high cost pooling arrangements that certain LECs receive as subsidies ostensibly to promote universal service. However, MFS understands that concentrating on the existing mechanisms, in terms of fine tuning their coverage or the amount of subsidy they raise would be hopelessly short-sighted. Rather MFS focuses on the basic policy questions that must be addressed in this needed review. MFS believes the structure of the hearing or inquiry should:

- ◆ Define what level of service constitutes universal service (e.g., dial tone, touch tone signalling, etc.)
- ◆ Determine who should receive universal service (e.g., end users, LECs, etc.)
- ◆ Determine the underlying costs of providing universal local exchange service (i.e., the total service long run incremental cost of providing local exchange service)
- ◆ Determine who should administer universal service programs (e.g., NECA, a third-party, etc.)
- ◆ Determine how should the subsidy be raised among carriers.

MCI believes that the above outline can be used to structure the debate on future universal service obligations. It serves to place the question of universal service into a structure that can allow debate, and is flexible enough to allow investigation of a number of viewpoints, while allowing for the basic premise of universal service to remain in place.

MCI recognizes the need for the industry to review the entire concepts underlying

the universal service directive. Such a review should not start with a focus on the current programs which are currently deficient and will only become increasingly unworkable as the industry is transformed. During the transition period to more robust local exchange competition, mechanisms must be established soon to deal with the funding of some type of universal service. Therefore such a review must utilize a zero-based approach, devising a competitively-neutral, efficiently designed and managed program that will maintain universal telephone service.

According to the FCC's "Trends in Telephone Service" report of March 1993, 93.8% of American households have telephone service, and this percentage has increased steadily over the past decade. While rates for basic local exchange access have risen somewhat in the years since divestiture, these increases have been more than offset by the dramatic reductions resulting from vigorous competition in the long-distance market. The average consumer's total phone bill has, since divestiture, increased more slowly than the overall rate of inflation, and while total average household telephone expenditures have increased, they have remained stable as a percentage of total household expenditures. Programs such as LifeLine and Link Up have made service more affordable for low income households. The quality and reliability of telephone service in the United States remains the best in the world.

It is important to realize that the size of consumer's total phone bill has remained stable in spite of a dramatic increase in usage. According to the FCC's Industry Analysis Division:

About 2% of all consumer expenditures are devoted to telephone service. This percentage has remained virtually unchanged over the past 20 years,

despite major changes in the telephone industry.

Residential toll calling grew by 10% a year between 1985 and 1989, a period when toll rates declined dramatically. Additionally, residential toll calling has grown by about 6% a year in the 1990's. The average American household now spends more on long distance service than on basic local service, reflecting the growth in long distance calling since the AT&T divestiture in 1984.<sup>2</sup>

Prices have remained stable while the utility of telephone service has increased enormously. A decade ago, about the only information service accessible via telephone was the time and temperature recording provided by the local bank. Today, consumers can access a variety of commercial computer information services with a mind-boggling array of information and entertainment available. Bulletin board systems are accessible, as are bulletin boards operated by the federal and state governments offering a wealth of information provided by various agencies. Consumers can access the global Internet, providing access to the information resources of thousands of interconnected computer systems. With currently available and affordable high-speed modems, access to this information is fast.

Even though many of the benefits of the much-touted "Information Age" clearly are available to consumers right now, there is increasing concern over whether the policies which have made this possible can continue to be viable as competition begins to emerge for portions of the local exchange network.<sup>3</sup> There is also concern as to

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<sup>2</sup>Trends in Telephone Service, Industry Analysis Division, FCC, October 1993.

<sup>3</sup>MCI notes here that interexchange carrier networks have had the capability to access all forms of information for at least a decade. Such built-in capability has been accomplished

whether some people may be unable to take advantage of these new services and new technologies as they become available. MCI desires the ability to address these issues within the Notice of Inquiry proposed by MFS.

### CONCLUSION

For the reasons stated above, MCI urges the Commission to begin a Notice of Inquiry to investigate the future direction of public policy as it relates to universal telephone service.

Respectfully submitted,

MCI TELECOMMUNICATIONS  
CORPORATION



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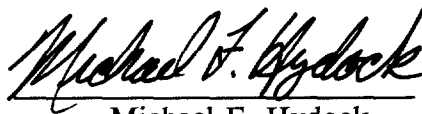
Dated: December 16, 1993

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without any subsidy from local exchange carriers. Further, these capabilities have been implemented in a competitive environment.

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on December 16, 1993.

A handwritten signature in dark ink, reading "Michael F. Hydock". The signature is written in a cursive style with a horizontal line underneath the name.

Michael F. Hydock  
Senior Staff Member  
1801 Pennsylvania Ave. NW  
Washington, D.C. 20006  
(202) 887-2731



# CERTIFICATE OF SERVICE

I, Susan A. Travis, do hereby certify that true and correct copies of the foregoing "COMMENTS" were served this 16th day of December, 1993, by first-class mail, postage prepaid, upon the parties listed below.

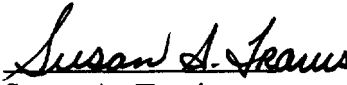
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Susan A. Travis

\*\* Hand Delivered